

SECURITY FOR THE BONDS

Pledge of Revenues

The Bonds are special limited obligations of the City. The principal of and interest on the Bonds are payable out of the Seattle Municipal Light Revenue Parity Bond Fund (the “Parity Bond Fund”). The City has agreed to pay into the Parity Bond Fund on or prior to the respective dates on which principal of and premium, if any, and interest on Parity Bonds will be payable, certain amounts from the Gross Revenues of the Light System sufficient to pay such principal and interest as the same become due. The Gross Revenues of the Light System are pledged to make such payments, which pledge constitutes a lien and charge upon such revenues prior and superior to all other charges whatsoever except reasonable charges for maintenance and operation of the Light System. See Appendix A—Bond Ordinance—Sections 16 and 17(a). Gross Revenues include the proceeds received by the City directly or indirectly from the sale, lease or other disposition of any of the properties, rights or facilities of the Light System, but do not include Bond proceeds and certain insurance proceeds. See Appendix A—Bond Ordinance—Section 1. Maintenance and operation charges do not include any taxes paid to the City (see “The Department—Taxation and Intergovernmental Payments”), but do include the unconditional obligation to make payments under certain power purchase contracts. See “Contingent Obligations” below.

Payment of the principal of and premium, if any, and interest on Parity Bonds constitutes a first and prior lien upon Gross Revenues of the Light System, after payment of reasonable maintenance and operation costs, superior to payments of principal of and premium, if any, and interest on the outstanding 2002 Notes and the Subordinate Lien Bonds, all described below, unless and until such Subordinate Lien Bonds are converted to fixed rate Parity Bonds in compliance with the requirements for the issuance of additional Parity Bonds.

The Bonds do not constitute general obligations of the City, the State of Washington (the “State”) or any political subdivision of the State, or a charge upon any general fund or upon any money or other property of the City, the State or any political subdivision of the State not specifically pledged thereto by the Bond Ordinance. Neither the full faith and credit nor the taxing power of the City, nor any revenues of the City derived from sources other than the Light System, are pledged to the payment of the Bonds.

Outstanding Parity Bonds

The Bonds are being issued on a parity of lien with the Outstanding Parity Bonds, which include 12 series of bonds issued since 1993. As of June 30, 2003, the City had \$1,309,961,000 principal amount of Outstanding Parity Bonds, of which \$118,895,000 will be refunded by the Bonds. See “Refunding Plan.”

Rate Covenant

In the Bond Ordinance the City has covenanted, among other things, to establish and maintain rates sufficient to provide for payment of debt service on the Outstanding Parity Bonds and any additional bonds issued on a parity of lien with the Outstanding Parity Bonds (the “Future Parity Bonds” and, together with the Outstanding Parity Bonds, the “Parity Bonds”) and all other obligations for which revenues have been pledged or to provide for such payment from other sources, to pay all costs of maintenance and operation and to maintain the Light System in good order and repair. The Bond Ordinance does not include a requirement that the City set rates to achieve a specific level of debt service coverage on Parity Bonds. See “The Department—Financial Policies” and Appendix A—Bond Ordinance—Section 17(d).

Reserve Fund

The City has created and is required to maintain the Municipal Light and Power Bond Reserve Fund (the “Reserve Fund”). The City has covenanted and agreed that it will pay into the Reserve Fund, out of Gross Revenues, within five years from the date of issuance of the Bonds, such sums as will, together with money presently in the Reserve Fund, provide for the Reserve Fund Requirement, which is defined as an amount equal to the lesser of:

- (i) the maximum Annual Debt Service on all Parity Bonds then outstanding, and

- (ii) the maximum amount permitted by the Internal Revenue Code of 1986, as amended, as “a reasonably required reserve or replacement fund.”

On the New Covenant Date, as defined in the Bond Ordinance, “Reserve Fund Requirement” will mean, for any issue of Parity Bonds, the Reserve Fund Requirement specified for that issue, and the Reserve Fund Requirement for all series of Parity Bonds will be the sum of the Reserve Fund Requirements for all such Parity Bonds.

If payments from the Reserve Fund are required to pay interest on or principal of any Outstanding Parity Bonds, the City will deposit money into that fund out of any money legally available therefor until the Reserve Fund has been replenished to the Reserve Fund Requirement. The balance in the Reserve Fund as of June 30, 2003, was \$79,265,992. Additional amounts will be deposited over the next five years to satisfy the Reserve Fund Requirement for the Parity Bonds.

In lieu of cash deposits to the Reserve Fund, the City may provide Qualified Insurance or a Qualified Letter of Credit in an amount equal to the Reserve Fund Requirement or any portion thereof. See Appendix A—Bond Ordinance—Section 17(b)(i).

Future Parity Bonds

The Bond Ordinance authorizes the issuance of additional Parity Bonds subsequent to the issuance of the Bonds (the “Future Parity Bonds”) if:

- (i) there is no deficiency in the Parity Bond Fund or in any of the accounts therein and provision has been made to meet the Reserve Fund Requirement for all Parity Bonds then outstanding plus the proposed Future Parity Bonds, and
- (ii) either:
 - (a) the Finance Director certifies that Gross Revenues (with certain adjustments), less the expenses of operation, maintenance and repair of the Light System (the “Net Revenue”), in any 12 consecutive months out of the most recent 24 months preceding the issuance of the Future Parity Bonds (the “Base Period”) were not less than 125 percent of maximum Annual Debt Service in any future calendar year on all Parity Bonds then outstanding and the Future Parity Bonds proposed to be issued, or
 - (b) the City has on file a certificate of a Professional Utility Consultant stating that the Adjusted Net Revenue for the Base Period, calculated as described in the Bond Ordinance, was not less than 125 percent of maximum Annual Debt Service in any future calendar year on all Parity Bonds then outstanding and the Future Parity Bonds proposed to be issued. The Bond Ordinance permits the Professional Utility Consultant to adjust Net Revenue based on certain conditions.

On the New Covenant Date, “Net Revenue” will mean, for the purpose of these requirements for the issuance of Parity Bonds, that amount determined by deducting from Gross Revenues the expenses of operation, maintenance and repair of the Light System and further deducting any deposits into the Rate Stabilization Account and by adding to Gross Revenues any withdrawals from the Rate Stabilization Account. See Appendix A—Bond Ordinance—Section 17(g).

The Bond Ordinance authorizes the issuance of Refunding Parity Bonds without the requirement of meeting the above provisions. See Appendix A—Bond Ordinance—Section 17(h).

Payment Agreements

The City may enter into Parity Payment Agreements that constitute a charge and lien on Net Revenue equal to that of the Parity Bonds. The prerequisites described above for the issuance of Future Parity Bonds apply to the City’s incurrence of obligations under any Parity Payment Agreements. See Appendix A—Bond Ordinance—Section 1—Definitions—Annual Debt Service.

No Acceleration of the Bonds

The Bonds are not subject to acceleration upon the occurrence of a default. The City, therefore, would be liable only for principal and interest payments as they become due. In the event of multiple defaults in payment of principal or interest on the Parity Bonds, the registered owners would be required to bring a separate action for each such payment not made. This could give rise to a difference in interests between registered owners of earlier and later maturing Parity Bonds.

Subordinate Lien Bonds

The City had \$98,355,000 principal amount of outstanding Subordinate Lien Bonds as of June 30, 2003, all in variable rate mode. The ordinances authorizing the issuance of the Subordinate Lien Bonds allow for the conversion of those bonds to Parity Bonds upon compliance with the requirements relating to the issuance of additional Parity Bonds at the time of conversion. Under the authorizing ordinances, the aggregate principal amount of outstanding Subordinate Lien Bonds at the time of issuance is limited to the greater of \$70,000,000 or 15 percent of the aggregate principal amount of Parity Bonds then outstanding.

Subordinate Lien Notes

Also outstanding on May 31, 2003, was \$125,000,000 principal amount of Municipal Light and Power Revenue Anticipation Notes, 2002 (the “2002 Notes”), which mature on November 21, 2003. The lien of the 2002 Notes on Net Revenue is subordinate to the lien on such Net Revenue of the Parity Bonds and the Subordinate Lien Bonds.

Cash Pool Loan

The City’s Director of Finance is authorized to make loans to individual funds participating in the City’s common investment portfolio (the “Cash Pool”) by carrying such funds in a negative cash position for a period of up to 90 days, or for a longer period upon approval by the City Council by ordinance, to the extent such loans can be supported prudently by the Cash Pool and the borrowing fund is reasonably expected to be able to repay the loan. Such loans bear interest at the Cash Pool’s rate of return. In May 2003, the City Council passed an ordinance authorizing a loan of up to \$50 million to the operating account of the Light Fund from the Cash Pool through August 31, 2003. As of July 7, 2003, this loan had been repaid in full. The ordinance also authorized the Light Fund to borrow \$100 million from the Cash Pool for the period from October 31, 2003, through December 31, 2004. The Department expects to make use of this authorization from November 2003 through June 2004. The maximum amount of the Department’s indebtedness to the Cash Pool is projected to be \$71 million in December 2003. See “The City of Seattle—Financial Management—Interfund Loans.”

Contingent Obligations

The Department has in the past and may in the future enter into various agreements, such as energy purchase agreements or financial derivative contracts, under which the Department may be obligated to make payments or post collateral contingent upon certain future events within or beyond the Department’s control. Such contingent payment obligations may be treated as operation and maintenance charges payable from Gross Revenues prior to the payment of principal of and interest on the Parity Lien Bonds, the Subordinate Lien Bonds and the 2002 Notes. See “Power Resources—Purchased Power Arrangements.”

DESCRIPTION OF THE BONDS

The Bonds will be dated the date of their initial delivery. Interest on the Bonds is payable semiannually on each May 1 and November 1, beginning November 1, 2003, at the rates set forth on the inside cover of this Official Statement. Principal is payable on each November 1, beginning November 1, 2004, in the amounts set forth on the inside cover of this Official Statement. Interest on the Bonds is to be computed on the basis of a 360-day year consisting of twelve 30-day months. The Bonds will be issued in \$5,000 denominations and integral multiples thereof. The principal of and interest on the Bonds is payable by the Bond Registrar, currently the fiscal agent of the State of Washington (the “Bond Registrar”) (currently, The Bank of New